



**National Rural Electric  
Cooperative Association**

4301 Wilson Boulevard  
Arlington, VA 22203-1860  
Telephone: (703) 907-5500  
TT- (703) 907-5942

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

August 20, 1997

Mr. William F. Caton, Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

Re: Annual Assessment of the Status of Competition in Markets for the Delivery of Video  
Programming -- CS Docket No. 97-141

Dear Mr. Caton:

The National Rural Electric Cooperative Association (NRECA) hereby submits reply comments regarding the Federal Communications Commission's Notice of Inquiry, FCC 97-141, adopted June 3, 1997 and released June 10, 1997, in the above-captioned proceeding in which the FCC seeks to gather information, data and public comment necessary to prepare the fourth annual report (1997 Competition Report) on competition in markets for the delivery of video programming.

Enclosed are an original plus nine copies of NRECA's reply comments. Please provide a personal copy to each of the Commissioners.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ronald K. Greenhalgh".

Ronald K. Greenhalgh  
Chief Engineer

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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
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In the Matter of )  
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Annual Assessment of the Status of ) CS Docket No. 97-141  
Competition in Markets for the )  
Delivery of Video Programming )

To: The Commission

REPLY COMMENTS OF THE  
NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Pursuant to Section 1.415 and 1.419 of the Federal Communication Commission's (FCC) Rules, the National Rural Electric Cooperative Association (NRECA) hereby submits its reply comments on the Notice of Inquiry, FCC 97-141, adopted June 3, 1997, and released June 10, 1997, in the above-captioned proceeding in which the FCC seeks to gather information, data and public comment necessary to prepare the fourth annual report (1997 Competition Report) on competition in markets for the delivery of video programming.

The National Rural Electric Cooperative Association (NRECA) is the national association of more than 1,000 consumer-owned rural electric generation & transmission and distribution systems which supply central station electricity to about 30 million people in the rural and remote areas of 2600 counties in 46 states. Rural electric cooperatives serve some 75% of the land area and operate half of all of the miles of electric lines in the United States, often providing services to the farthest reaches of our nation. Rural electric systems average six consumers per mile of line, and serve large geographical areas where there are fewer than one consumer per mile.

**Comments**

NRECA filed comments in response to the above captioned Notice of Inquiry (Notice) on July 23, 1997. We believe that those comments provide the data and information necessary for the FCC to proceed with preparation of the 1997 Competition Report regarding whether the rates charged for pole attachments by cooperatives and municipalities, especially in rural areas, impede or promote competition.

However, after reviewing comments submitted by the National Cable Television Association (NCTA) and the Small Cable Business Association (SCBA), it is apparent that the cable TV industry has mounted an attack on the pole attachment process in order to retain their subsidized rate, and we believe a reply to those comments is appropriate in order to balance the record.

NCTA and SCBA raised a number of issues that are not relevant to this proceeding. Their comments on engineering, safety, and environmental concerns are not rate issues and are, therefore, not responsive to the question asked by the FCC. The non-rate issues raised by NCTA and SCBA were addressed by the Edison Electric Institute and UTC, The Telecommunications Association in comments they filed jointly in CS Docket No. 97-98 on June 27, 1997. NRECA supports those comments.

NCTA and SCBA cite several anecdotal instances where rural electric cooperatives have recently raised their pole attachment rates. There are many, many more rural electric cooperatives that have not. In fact there are many rural electric cooperatives that deliberately charge artificially low rates in an attempt to attract cable to their areas. The FCC should not be misled by allegations that increases in pole attachment rates are excessive, unwarranted, and designed to drive out competition. To the contrary, pole attachment rate increases are necessary to remove long-standing subsidies in order for the rural electric cooperatives to better position themselves for competition in the arena of their core business -- providing affordable and reliable electric service.

Given the threat of retail competition for their native electrical loads and wholesale competition for their power supplies, NRECA has encouraged its member rural electric cooperatives to focus much more attention on their bottom line. They can no longer afford to allow other entities, especially potential competitors, to use their facilities at a below-cost or subsidized rate. Pole attachment rates are one such area that warrants attention because about 84% of NRECA's members that responded to a recent survey indicated that the rates they charged for pole attachments were not fully recovering costs. As a result some have begun the difficult task of raising the rates.

SCBA's statement "the power and telephone cooperatives leasing pole space to SCBA members often qualify for low-cost loans, subsidies and tax exemptions not available to other utilities" on page 21 of their comments is curious. Rural electric cooperatives meet less than one-half of their capital needs through loans from the federal Rural Utilities Service, formerly the Rural Electrification Administration (REA). In fact, total federal lending to rural electric cooperatives has declined 77 percent since the loan program was drastically overhauled in 1993.

Surely SCBA is not proposing to turn the clock back to 1935 and return rural America to pre-REA conditions. If so, any consideration of the impact of rural electric cooperative pole attachment rates on competition would be academic because there wouldn't be any power poles to hold the attachments. The cable systems could run their own pole lines, but without electricity it would be difficult to find subscribers.

SCBA's statement is also curious when considering the fact that all electric utilities receive some tax benefits or incentives, primarily due to the essential nature of the service they provide. Investor-owned electric companies enjoy the benefits of some \$74 billion in deferred federal income taxes collected from ratepayers at an annual cost to the U.S. taxpayer of \$5 billion. Rural electric cooperatives must meet an annual test to retain a small federal tax exemption given to not-for-profit entities. Additional eligibility criteria are corporate structure, operation for benefit of members on a not-for-profit basis, and democratic control. Rural electric cooperatives pay all federal, state and local excise and payroll taxes. Also, they often pay real estate or local property gross receipts taxes.

Prior to enactment of the Telecommunications Act of 1996 (TAct96), universal service funds provided subsidies to local exchange carriers. FCC regulations promulgated pursuant to TAct96 will extend those subsidies, through a new Universal Service Fund (USF), to entities providing telecommunications services in rural and high cost areas. Presumably, NCTA and SCBA's members will subsidize their costs in those areas by obtaining monies from the new USF.

SCBA does not appear to recognize how closely their problems parallel those that the rural electric cooperatives are facing in a restructured electric utility industry. In their comments SCBA quotes Colleen McNamara, Executive Director of the Michigan Cable Telecommunications Association "... When a cable system passes more cows than houses, the expense they incur in just attaching to poles adds up in a hurry." That quote would be as accurate if she had said "When an electric cooperative passes more cows than houses, the expense of just installing the poles adds up in a hurry." Rural electric cooperatives have the least customer density per mile of line in the electric industry: 6 customers per mile of line compared to 35 customers per mile of line for investor owned utilities. SCBA's chart on page 17 of their comments shows a density of 14 subscribers per mile, more than twice the average for rural electric cooperatives. However, there is at least one major difference: rural electric cooperatives have a statutorily mandated obligation to provide all consumers in their territories with electric service. Cable companies do not. They can pick and choose - subdivision by subdivision - whether to provide cable service.

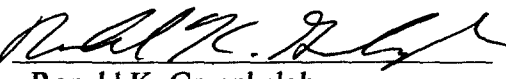
SCBA alleges that "Many cooperatives have become dealers for DBS operators, thereby giving the cooperatives a reason to increase the cost of their cable competition." A very small percentage (less than 7%) of the rural electric cooperatives are involved in DBS operations. NRECA defers to the National Rural Telecommunications Cooperative (NRTC) for comments on competition issues related to DBS. NRTC represents the telecommunications interests of the rural electric cooperatives involved in DBS operations. However, that does not appear to be sufficient justification to burden 1000 rural electric other cooperatives with federal regulations.

The FCC has indicated in previous proceedings that the record was not sufficient for the FCC to recommend repeal of the statutory exemption from federal pole attachment regulation for rural electric cooperatives. NRECA suggests that the record is now adequate for the FCC to determine that, given the administrative burden it would place on hundreds of small, consumer-

owned, not-for-profit cooperatives and there being no apparent value added by such regulation, repeal of the statutory exemption is not warranted.

Respectfully submitted,

NATIONAL RURAL ELECTRIC  
COOPERATIVE ASSOCIATION

By:   
Ronald K. Greenhalgh  
Chief Engineer

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Cooperative Association  
4301 Wilson Boulevard  
Arlington, VA 22203-1860

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